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SA

C. DUKES SCOTT
EXECUTIVE DIRECTOR

P.O. Box 11263
Columbia, S.C. 29211



Phone: (803) 737-0800
Fax: (803) 737-0801

DAN F. ARNETT
CHIEF OF STAFF

May 17, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Carolina Power & Light Company dba Progress Energy Carolinas, Inc. - Annual Review
of Base Rates for Fuel Costs.
Docket No. 2006-1-E

Dear Mr. Terreni:

Enclosed for filing please find sixteen (16) copies of the Settlement Agreement. Please date stamp one copy and return it to me via our courier. As provided in the Settlement Agreement, faxed signatures are attached. Original signatures will be provided as soon as possible.

We have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

Nanette S. Edwards

NSE
Enclosures

cc: Len S. Anthony, Esquire (w/enclosures)
Garrett A. Stone, Esquire (w/enclosures)
Scott Elliott, Esquire (w/enclosures)

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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-1-E

May 17, 2006

IN RE:)	
)	
Carolina Power & Light Company, d/b/a)	SETTLEMENT AGREEMENT
Progress Energy Carolinas, Inc. Annual)	
Review of Base Rates for Fuel Costs)	
)	
_____)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”), South Carolina Energy Users Committee (“SCEUC”), Nucor Steel – South Carolina (“Nucor”) and Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., (“PEC”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (“Commission”) pursuant to the procedure established in S.C. Code Ann. §58-27-865 (Supp. 2005), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the testimony of the following witnesses without objection, change, amendment or cross-examination:

A. PEC witnesses:

- (1) Bruce P. Barkley
- (2) Dewey S. Roberts, II

B. ORS witnesses:

- (1) A. Randy Watts
- (2) Jacqueline R. Cherry

C. SCEUC witness (if any)

D. Nucor witness (if any)

The Parties further agree to work collaboratively to submit testimony in support of this Settlement Agreement as set forth by the Commission's settlement procedures.

2. As a compromise to positions advanced by PEC, ORS, SCEUC, and Nucor, all Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties. The Parties agree that:

- A. PEC shall increase its fuel factor by 0.3 cents per kwh from 2.2 cents per kwh to 2.5 cents per kwh effective for the period beginning with the first billing cycle in July 2006 extending through the last billing cycle of June 2007.

- B. The increased revenue generated by the 0.3 cents per kwh increase in the fuel factor from 2.2 to 2.5 cents per kwh shall be used to reduce the actual PEC under-recovery as of June 30, 2005 of \$32,365,925. This reduction shall be accomplished by multiplying PEC's actual sales for the period the new fuel factor is in effect by 0.3 cents per kwh and then subtracting the result from the \$32,365,925 under-recovery. To illustrate, using PEC's projected South Carolina retail sales of 703,564,103 kwh for July 2006 multiplied by 0.3 cents per kwh equals \$2,110,692. The additional revenue of \$2,110,692 would then be subtracted from the under-collection amount of \$32,365,925 with a resulting balance of \$30,255,233. Each month the additional revenue would be used to reduce the under-recovery leaving any remaining balance of the under-recovery (plus interest) to be recovered for the period July 1, 2007 through June 30, 2008, to the degree not offset by an over-recovery after June 30, 2005. One effect of this approach is to reduce the interest paid on the under-recovery. Pursuant to the settlement agreement approved by the Commission in Docket No. 2005-1-E, the rate of interest is six percent (6%) compounded annually.
- C. The Parties agree to investigate and study whether a seasonal fuel factor, with a higher fuel factor during higher fuel cost months and a lower fuel cost factor during off-peak months, may be in the public interest. The Parties shall request the Commission to keep Docket No. 2006-1-E open after approval of the settlement for the Parties to work together on this issue. The Parties shall

work together in good faith to attempt to develop a seasonal fuel factor if the investigation reveals that a seasonal fuel factor is in the public interest.

- D. The Parties agree this Settlement Agreement is just, fair, reasonable, in the public interest, and in accordance with law and regulatory policy. Specifically, the Settlement Agreement provides that the increase in the fuel factor will be used to reduce the under collection.
- E. This Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party concerning the requirements of S.C. Code Ann. §58-27-865 in any future proceeding.
- F. The Parties agree to accept all accounting adjustments as put forth in ORS witness Cherry's testimony.
- G. The Parties agree that any and all challenges to PEC's historical fuel costs and revenues for the period ending March 31, 2006 are not subject to further review; however, fuel costs and revenues for periods beginning April 1, 2006 and thereafter shall be open issues in future proceedings and will continue to be trued-up against actual costs in such proceedings held under S.C. Code Ann. § 58-27-865.
- H. The Parties agree that in an effort to keep the Parties and PEC's customers informed of the over/under recovery balances related to fuel costs and of PEC's best efforts to forecast the expected fuel factor to be set at its next annual fuel proceeding. PEC will provide to SCEUC, Nucor, and, where applicable, its customers the following:

- (1) copies of the monthly fuel recovery reports currently filed with the Commission and with the ORS; and
- (2) a quarterly forecast beginning October 1, 2006, of the expected fuel factor to be set at its next annual fuel proceeding based upon PEC's historical over/under recovery to date and PEC's forecast of prices for natural gas, coal, oil and other fuel required for generation of electricity. PEC will use its best efforts in making these forecasts. To the extent that the forecast data required hereunder is confidential, any party or customer that wants forecasted fuel data will have to sign a nondisclosure agreement agreeing to protect the data from public disclosure and to only disclose it to employees or agents with a need to know.

3. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues and motions currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

4. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. This Settlement Agreement integrates all discussions had among the Parties into the terms of this written document. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the

Settlement Agreement, the approach it contains for computing the fuel factor, or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty, by providing written notice of intent to do so within five (5) working days of notice of the Commission's decision not to approve the Settlement Agreement in its entirety. In the event any Party withdraws under such circumstances, then the Settlement Agreement is null and void and each Party shall have the opportunity to present evidence and advocate its position in the proceeding and the Parties shall work together in good faith to develop and propose a new procedural schedule to put the Parties back in the position they were prior to the settlement.

5. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law.

6. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capabilities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

7. This Agreement is and shall be deemed for all purposes to have been prepared for the benefit of and through the joint efforts of the Parties hereto and shall not be construed or interpreted against the Party originating or preparing it.

8. Each Party represents and warrants that its representative(s) executing this Agreement is fully authorized to do so on its behalf. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to

this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party.

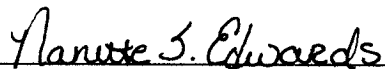
9. Each numbered or lettered subsection or paragraph herein is for reference only and has no substantive meaning.

10. This Settlement Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one original and provable copy of this Settlement Agreement.

11. This Settlement Agreement fully represents the entire agreement of the Parties with respect to the matters addressed herein and supersedes all prior conversations, documents, and agreements (express or implied) in this Docket No. 2006-1-E. No terms or conditions of this Settlement Agreement may be modified or waived except by an instrument in writing duly signed by or on behalf of each of the Parties.

WE AGREE:

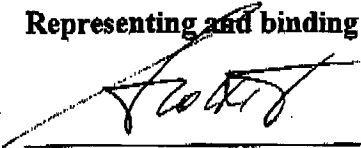
Representing and binding the Office of Regulatory Staff



Nanette S. Edwards
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201
Phone: (803)737-0800
Fax: (803)737-0895
Email: nsedwar@regstaff.sc.gov

WE AGREE:

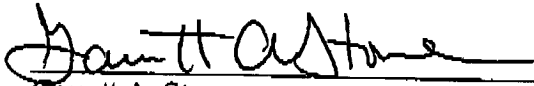
Representing and binding South Carolina Energy Users Committee



Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205
Phone: (803)771-0555
Fax: (803)771-8010
Email: selliott@elliottlaw.us

WE AGREE:

Representing and binding Nucor-Steel

A handwritten signature in black ink, appearing to read "Garrett A. Stone", is written over a horizontal line.

Garrett A. Stone

Brickfield, Burchette, Ritts & Stone, P.C.

1025 Thomas Jefferson Street, NW

Eighth Floor – West Tower

Washington, DC 20007


Phone: (202) 342-0800

Fax: (202) 342-0807

Email: gas@bbrslaw.com

WE AGREE:

Representing and binding Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc.

A handwritten signature in dark ink, appearing to read "Len S. Anthony", is written over a horizontal line.

Len S. Anthony
Deputy General Counsel – Regulatory Affairs
P.O. Box 1551
Raleigh, NC 27602
Phone: (919)546-6367
Fax: (919)546-2694
Email: len.s.anthony@pgnmail.com